READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	8 JULY 2015	AGENDA ITEM:	5
TITLE:	AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
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1.   EXECUTIVE SUMMARY

1.1   This report provides the Audit & Governance Committee and Corporate Management Team with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2015.

1.2   The report aims to:

- Report back on those audit reviews outstanding at year end (31st March 2015) which have been finalised in Q1 of this financial year.
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit in Q1.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

1.3.   Attached to this report in Appendix A are the internal audit assurance definitions and priority ratings of recommendations.

2.   RECOMMENDED ACTION

2.1   The Audit & Governance Committee are requested to consider the report.

3. SUMMARY OF AUDIT FINDINGS

3.1 Gas/Electric Inspections

0	2	3

3.1.1 Under the Gas Safety (Installation and Use) Regulations 1998, Reading Borough Council is required to ensure the safety of all its tenants by undertaking annual gas safety checks of appliances in all of its own properties. Approximately 5,700 properties are monitored and maintained by the Council through an annual servicing and ongoing repair gas servicing contract. Gas inspections are carried out in-house.

3.1.2 The Council aims undertake electrical inspections every 10 years and these are performed by external contractors. At the time of the audit the electrical framework contract was being retendered with the aim of having three contractors undertaking the test and inspections. Rewiring work is undertaken by independent contractors, again through separately tendered framework contracts.

3.1.3 The effectiveness of the gas inspection process has continued to improve and we base this opinion on, most significantly, the low incident of errors detected and also the generally robust administrative practices undertaken by the Gas Servicing Team.

3.1.4 The data systems used to manage both gas and electric inspections have been created in-house and whilst they appear to be very effective we flagged the risk of maintaining stand-alone databases and the need to share the technical knowledge of their operation. This is being looked at with a resolution by September 2015 and the bespoke databases will be reduced as a result.

3.2 Repair and Renewal Grant:

0	0	0

3.2.1 Under the scheme homes and businesses that were flooded between 1 December and 31 March could apply for a government grant to help cover the cost of buying and installing new measures to reduce the risk of flooding, or limit the damage should they be flooded in the future.

3.2.2 During 2014/15 six properties were approved for resilience work totalling £23,363.55. This expenditure was applied for and reimbursed by Defra on a quarterly basis in accordance with the grant determination. We can confirm there are satisfactory controls in place to independently validate

the appropriateness of each application, the cost and that the work had been satisfactorily completed in accordance with the Scheme conditions.

3.3	School Attainment:	0	3	0

3.3.1 Although schools are responsible for setting their own attainment targets and for monitoring the delivery of performance, the Council is required to ensure educational standards are progressively improved in accordance with Department of Education (DfE) standards and to take remedial action where this is not apparent. School performance measures are compared against the threshold levels in pupils' attainment and/or progress (floor standard). Schools that do not meet the standard may face a number of potential challenges and interventions from Central Government and the Council, depending on the perceived level of under-performance.

3.3.2 It is our opinion the Council has satisfactory governance arrangements in place to highlight and support improvements for driving change in those schools which are underperforming. We have made some recommendations to strengthen the team's analysis of performance and monitoring attainment in schools.   A re-defined Schools Monitoring Group process will be implemented in September 2015, including documented actions and outcomes and every school will know how they are currently assessed.

3.4	Treasury Management:	0	0	4

3.4.1 The Treasury Management function was found to be well managed. A number of advisory recommendations were made to further strengthen the audit trail around decision making to ensure that decisions taken are clearly justified.

3.5	Payroll:	0	1	0

3.5.1 Overall controls within the payroll operation did not give rise to concern. An issue arose with the reconciliation between the payroll system and the new financial system which resulted in the need to devise a new and more complex reconciliation procedure that took time to develop.

3.6	Fuel System:	0	5	5

3.6.1   A stock of fuel is held by the Authority to power both fleet vehicles and equipment used to provide services to the community. The total fuel cost for the Councils vehicle fleet for 2014/15 was £520k. Of this amount £17k was issued through fuel cards at local retailers when the Council's own system was unavailable.

3.6.2   The Council recognises the need to monitor and control the use of fuel for its fleet of vehicles and operates a fuel management system to monitor fuel use per vehicle. Fuel cost data is provided to cost centre managers as part of the recharge process, however this needs to incorporate better information on vehicle/equipment fuel usage, such as fuel capacity for identification of variations in fuel consumption, efficiency and possible fuel misuse.

3.6.3   The fuel management system we use monitors fuel use per vehicle and requires the driver to enter the correct odometer figure at the fuel pumps before it will dispense fuel and a notional difference in odometer readings is applied per vehicle. We have recommended restrictions need to go further to constrain the volume of fuel at any one dispensing and limit the volume of fuel dispensed within a set period of time.

3.6.4   In addition to fuel usage restrictions, more needs to be done to manage and restrict the number of fuel keys (including override keys) as only 58% of keys have transactions recorded over the last four months and plant keys do not have volume restrictions.

3.6.5   Fuel stock has been well managed to maximise the volume of fuel purchased each time, which reduces the cost per litre. Fuel tanks are dipped on a regular basis to check that the fuel system indicates the correct level of fuel in the tanks.

3.6.6   In response to our recommendations an exercise is being completed to review the usage of all existing fuel keys (vehicle & plant) and the Corporate Facilities Team will work with fleet management and service managers to apply more appropriate restrictions on use including quantity and frequency of fuel dispensed. Improved management information and monitoring will begin immediately and amendments made to by system administers will in future be clearer and checked by the facilities Manager.

| 3.7 | Fleet Management: | 3 | 2 | 1 | |

3.7.1   The Council maintains a range of different types of vehicles across a number of service areas. The types of vehicles range from sweepers to specialist and heavy goods vehicles. In principle Fleet Management is responsible for the procurement, servicing, registration and overall maintenance of these vehicles to ensure compliance with a host of local and statutory requirements.

3.7.2   There is recognition by the service that Fleet Management Systems and process need developing further to ensure compliance with legislation and to ensure value for money is achieved. The service is currently undertaking a council wide review of the use of vehicles and the fleet in general in conjunction with Peter Brett Associates, the Council's Transport Consultant. Our recommendations will feed into the outcome of this review, to form an action plan to improve the Council's Fleet Management systems.

3.7.3   One recognised area for improvement is to increase the frequency of checking of driver licences. The interim Transport Manager has recognised that these need to be done in respect of fleet vehicles and has started to implement a targeted programme to do this using an on-line facility. Checks of drivers of Heavy Goods Vehicles have recently been completed.

3.7.4   Although the council provides a range of vehicles for staff it also relies on staff using their own vehicles on Council business. These are known as the 'grey fleet'. A review of procedures relating to the use and liabilities associated with the use of these vehicles noted that the Department for Transport places little distinction between official vehicles and the 'grey fleet'. In order that the Council can corporately demonstrate it is meeting its responsibilities, the Service is to begin a programme of capturing all areas of private vehicle use associated with RBC service delivery and align them to a single tracking system. This will need corporate assistance as it is recognised that this risk is not solely owned by fleet management as currently responsibility for checking driver credentials is delegated to service managers. Furthermore, RBC does not maintain insurance cover for privately owned vehicles making it critical that proper and regular checks are made in this respect and all staff are reminded of their obligations.

3.7.5   One of our principle concerns related to the letting of fleet vehicle and related contracts. Although the procurement of Waste Freighters has recently been successfully let through a framework contract there are a number of areas where contracts either could not be located or have lapsed.

3.7.6 Tracking devices are supposed to be fitted to council fleet vehicles. Audit work has found s evidence that these have either not been fitted or had been temporarily disabled in some cases. The reasons for this are being followed through currently, but it is evident that the implementation and use of trackers needs to be reviewed, updated and then universally implemented. Fleet Management are acting upon this.

| 3.8 | Collection and Debt Recovery: | 0 | 4 | 0 | |

3.8.1 While we were satisfied that the Council follows statutory processes and good practice in most areas, the audit concluded that there was further work that could be done in order to reduce levels of debt incurred in the future and to reduce outstanding corporate debt.

3.8.2 The Council's accounts show all debtor balances, which include debts where proactive action needs to be taken to ensure the Council collects the money that is due to it. Our significant priorities are to ensure that the historic debt level is reduced, future debt is minimised, and where possible debt is prevented altogether.

3.8.3 Only Sundry Debt held in the Academy System which typically runs between £3-4 million (over 1 month old) at any one time and HB & CTAX Overpayment Debt (£4.6m at 31 Dec 2014) was being reported to CMT. Debt held outside of this system was not being reported systematically to CMT. Some services are managing debt / income collection levels in respect of their own activities, and the audit identified that needs to be more systematically recognised and reported.

3.8.4 We have issued a positive assurance opinion on the basis that the Council is aware of its debt management environment and is actively seeking to mitigate these risks, despite issues around aged debt management and collection performance.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes contributing to the strategic aim of remaining financially sustainable.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 N/A

6. LEGAL IMPLICATIONS

6.1 Legislation dictates the objectives and purpose of the Internal Audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

6.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

7. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

8.1 N/A

APPENDIX A

2015/16 Assurance ratings

Substantial	GREEN	**Substantial assurance** can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.
Reasonable	YELLOW	We can give **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** expose until resolved.
Limited	AMBER	**Limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.
No assurance	RED	There is **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

APPENDIX A

Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority rating	Current Risk	Action required
High	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or mis-statement.	Immediate*
Medium	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration	Within three months*

* Unless a more appropriate timescale is identified/agreed at the draft report stage.